Findings and Recommendations

The following is a list of general findings and related recommendations designed to facilitate quality improvements within the Office of Risk Management. These findings and recommendations highlight the challenges faced and the obvious implications of lack of action. There exists considerable potential within the Office of Risk Management to simultaneously improve internal operations, bolster staff morale and reduce loss costs. In some cases, it is likely that a reorganization of resources can provide immediate aid. Various processes and procedures can be streamlined to provide more staff time for essential functional activities. Technology can be updated to best practice standards without costing significantly more than the current license and maintenance fees for what appears to be a severely outdated and unresponsive risk management information system.

Findings illustrate the general culture within the organization. Recommendations are provided as guidelines to implement optimized processes and to cultivate a stronger commitment to customer service, teamwork and knowledge cross-pollination.

GENERAL FINDINGS

Organization Assessment

1. The Office of Risk Management ***lacks the quantitative and qualitative management skills*** to develop and deliver statistical and/or analytical information to the Division of Administration (including the Deputy Commissioner for Policy and the Office of Planning and Budget) and the Legislature as requested. This is primarily due to the exclusion of line managers from strategic planning sessions and the withholding of pertinent data from these line managers by the former executive management team. This lack of participatory management by the former executive management team has contributed to the lack of full confidence in the information provided by the Office of Risk Management as well as hampered the ability of the current executive management team to provide accurate, reliable information.

2. ***Work processes within the Office of Risk Management appear to be cumbersome and require frequent managerial approval.*** No one person or unit sees the whole perspective of any one customer which results in an inability to effectively manage cross-functional information on individual clients. In addition, the risk management information system is a significant obstacle to productivity, creating additional problems when in use and requiring employees to find ways to develop workarounds (usually manual) to complete their tasks. The increased task cycle time has led to current backlog of work, particularly with the Claims Unit and Accounting Unit.

3. ***Staff members generally feel that communication is lacking at all levels of the organization***: top-down, bottom-up and cross-functionally. Work done within different units or levels of management is completed in relative isolation within narrow business parameters.

4. ***Decision-making is concentrated at the senior management level,*** giving employees the feeling that their input is not desired or valued. In addition, employees question whether management understands the impact of their decisions and implementation strategies.

5. ***Staffing-related issues are perceived as the number one priority*** within the Office of Risk Management. The approved level of staffing (Table of Organization) has become the dominant theme throughout the organization.

6. Staff interviews consistently uncovered concerns regarding ***staff morale.*** Some believe high quality personnel are leaving or preparing to leave. Some reported they are seeking transfers to other agencies. This constant shifting of staff is accelerating organizational stress.

7. ***Staff members see supervisory personnel as key strengths in some units but major weaknesses in others.*** Interviews with some supervisors deemed inadequate by their employees have indicated that some of these perceptions are accurate but some of these supervisors do appear quite talented and certainly dedicated but lack training and management support to build and maintain leadership credibility within their work groups.

Cultural Assessment

1. The Office of Risk Management ***has not succeeded in establishing an organizational climate or culture that rewards, supports or requires excellence.***

2. *There is a mutual system in which management personnel generally transfer accountability for present conditions to unnamed individuals outside of the organization.* Liberal judges, uncaring agency heads, budget-slashing executives are all seen responsible for the results obtained by the Office of Risk Management. Managers should also accept responsibility for their role in this circle of ineffectiveness.

3. ***Managers are not expected to take initiatives to improve performance***. As an example, when it was pointed out that over $8 million in annual court-ordered future medical payments could be significantly reduced by engaging the same bill review vendor already being used in Workers' Compensation, the response was that the previous State Risk Director had not wanted to spend the additional funds necessary for such reviews. There was no realization that change can and has occurred. There was no suggestion of even conducting a cost analysis on this small item that could promise large savings. Overcoming this mindset among the management team will be a challenge.

4. ***The idea of operating with fewer – and not greater – numbers of staff cannot be considered.*** The organization is broken into many small factions with each faction understandably focusing on its internal needs and priorities. The result is a never-ending spiral of needs all translating into increased personnel. A shift to a culture of efficiency and waste identification and reduction will take approximately three years or more to instill. The call for change will have to be explicit and frequent. The perceptions and assumptions that guide all of the behavior of the management team will require a systematic inspection. As managers become aware of the basis of their assumptions and are offered alternative perspectives from the executive leadership, change will become possible.

5. ***Dress, demeanor, and general housekeeping*** within the organization have further fostered an atmosphere not characterized by any real degree of professionalism. The lack of training and support for personal education and professional certification both add to a culture best described as "brave resistance to what is seen as overwhelming external forces".

6. While the Office of Risk Management may lack the ***skill to effect meaningful change,*** it does not lack the need to change.

7. The ***lack of quantitative outlook*** fed by a dearth of meaningless management reports has led to a lack of discrete goals and objectives. This lack of planning and measurement of performance has led to an aimlessness and loss of concentration. A centralized executive form

of management with little shared information or authority finally closed the loop. With no external sources penetrating, the organization has drifted.

8. Not surprisingly, the ***present management team has indicated no participation in the poor results now admittedly being seen.*** Yet it was this very group of managers and supervisors who presided over these very results at the technical level.

9. During the assessment, reference was made to a recent ***customer survey*** (itself one year behind in completion) that showed a satisfactory level of performance. Injured workers are paid promptly and medical providers are paid. General satisfaction should be expected in an environment where the client is not particularly sensitive to the cost of insurance or claims would be expected to generate general satisfaction. Client agencies have no real frame of reference with which to judge or compare service quality.

10. Staff appears to have ***little contact with the outside risk management world.*** They have little notion of what other state risk management agencies are doing. They rarely attend seminars nor do they stay abreast of current developments through informed reading.

Administration Assessment

The Office of Risk Management maintains a major annual investment to support the ***current risk management information system*** which is inadequate in every respect as a tool to support the risk management functions within the organization.

Accounting Assessment

1. Staff members ***recognize and willingly accept recommendations for improving internal process flow and financial controls.***

2. ***"Billings" to units for "policy premiums"*** does not represent the actual requests for funds.

3. The Accounting Unit employs a ***large staff*** that apparently performs functions not typical to state accounting groups.

4. ***Regularly scheduled meetings*** with accounting supervisors were not being conducted.

5. A procedure for ***identifying repetitive errors or omissions*** was not in place.

6. There appears to be a ***lack of training of new personnel because of work backlogs***. Procedure manuals are outdated and as new personnel come on board, they write their own procedures as they conduct the job function. Few have an overall view of the functions performed in the accounting office. This results in a lack of understanding in the needs of other employees.

7. Only a ***few personnel have the technical knowledge*** to make suggestions for improvements in using *Microsoft Excel* and *Microsoft Access* to eliminate redundancy in work processes.

8. ***Manual preparation of input forms*** produces errors in input to computer systems from transpositions as well as the possibility of incomplete data being transmitted for data entry.

Technology Assessment

1. The Office of Risk Management maintains a major annual investment to maintain the ***current risk management information system*** which is inadequate in every respect as a tool to support the risk management functions within the organization.

2. The Office of Risk Management ***does not possess the level of staff expertise or resources to effectively support true business intelligence activities at this time.***

Underwriting Assessment

1. The Underwriting Unit is ***well-managed with a good staff of individuals***.

2. The Underwriting Unit has a ***detailed policy and procedure manual*** and the operations assessed indicated a ***high level of adherence*** to those policies.

Loss Prevention Assessment

1. ***Current policies manual does not have an adequate level of procedural specificity and controls.*** As a result:
    - Communications of findings is not effectively communicated to affected parties and monitored for resolution.
    - Safety audits are highly subjective.
2. Based on criteria provided by the U.S. Department of Labor, a significant *number of staff members are not technically qualified* to perform tasks they are assigned to do.

Claims Assessment

1. ***Property* and *Medical Malpractice*** are the stronger performing departments.
2. ***Independent adjusters*** used early in cases to develop facts/make personal contacts seem to improve file quality.
3. ***Liability files are abandoned to the defense attorney*** as a means of office policy. A "best practice" is to avoid abandonment of claim files once cases go into suit. This underscores a need to develop very clearly the distinctive roles of (1) defense attorney and (2) claims representative. To avoid a lack of control on claim files, it is an accepted practice to charge one individual with total responsibility for the ultimate result and proper claim file handling. While some companies do allocate this responsibility to the defense attorney, usually when the attorney is staff, most companies continue to charge the claims representative with ultimate responsibility. Note that this does not include the claims manager, claims supervisor, etc. Rather, the claims representative has to know that he or she has total accountability for proper procedural handling. As an example, should the claims representative receive a new suit and ask the supervisor a key question concerning future handling, and even if this supervisor promises a reply in two days, it remains the responsibility of the claims representative to see that a timely answer is obtained on the litigation. A similar accountability standard should exist with regard to overall responsibility for the file when a defense attorney is involved. This responsibility cannot and should not be shared. It should be one or the other. To allow defense counsel to do things other than actual attorney required duties would be to move the case away from

claim adjuster's realm of accountability. The negative effects of allowing the defense counsel to control the development of a claim include:

- Increased costs as higher attorney hourly rates are charged for activities not required to be done by an attorney
- A blurring of responsibility and accountability at the claim file level; e.g., "I thought the attorney would have asked if she had wanted that information" or "I assumed the claim representative was working on the investigation of the case."
- Increased control and coordination problems
- Inertia by the claims representative due to assumptions as to how the defense attorney might react to a given suggestion. As a result, promising ideas are left untried.
- Assumptions by the defense counsel that investigation, negotiation, and evaluation must of necessity be borne by counsel in the absence of affirmative action by the claims representative.
- Interpersonal and interdepartmental conflict between counsel and claims personnel.
- Lack of responsiveness as two parties and not one have to reach consensus to act.

4. Claim management ***lacks a quantitative orientation*** and the automated operational reporting capability to move towards such an orientation. Without effective business monitors, goals, and objectives as targets, control is impossible.

   Outside contact and investigation in workers' compensation needs express *process and procedure* to develop consistent file results. Today's claim supervisors and managers are the first generation of claims management who themselves may have never worked outside a claims office environment. Hence, one should not assume that these managers know which claims can best benefit from outside claims assignments. Decision rules can be created that determine which claims should go to outside assignment. Supervisors, managers, and claim representatives should be given override authority for such assignments, but the number of recognized assignments, assignments completed, and assignments overridden can be tracked to insure that a reasonable number of claims needing outside work actually get it. In the absence of a strong program to push claims to outside investigation and handling, the number of actual outside assignments will rise intermittently, perhaps for ninety days, and then return to earlier low levels.

Risk Litigation Assessment

1. The Office of Risk Management ***needs to have better control of litigated cases.*** The Division of Risk Litigation (DRL) shares authority on claim dispositions with the Office of Risk Management without accepting responsibility for outcomes.

2. The Office of Risk Management ***lacks a clear understanding of potential course of action*** in all cases, particularly as it relates to selection of attorneys and settlement scenarios.

3. The DRL provides minimal documentation to the Office of Risk Management to ***facilitate the identification of performance metrics and the quantification of ROI*** in computing the total cost of a case to the state.

RECOMMENDATIONS

STRATEGIC AND TACTICAL PLANNING

1. The Office of Risk Management should re-institute the practice of strategic and tactical planning sessions on a regular basis. These planning sessions should be structured and facilitated in a manner that promotes empowerment and ownership across the organization. *Staff members who generated the current operational numbers should be involved to document and help predict the future operational numbers.* The result of these sessions will be a Strategic Plan that clearly defines and quantifies pertinent business measures.

2. *Department Operating Plans* should be developed for the upcoming fiscal year. These plans should support the Office of Risk Management's Strategic Plan and should incorporate specific departmental initiatives to be implemented over the next twelve months. Each initiative should have a designated sponsor, implementation date and level of resources needed to successfully complete the initiative. (Refer to the Office of Planning and Budget's *MANAGEWARE* publication for guidance).

3. A *contingency plan* should be prepared prior to the start of the 2002-2003 fiscal year that would provide direction should state funding provide less than expected cash needs. The goal here would be to provide equity among potential payees and to protect the state from allegations of favoritism and discrimination.

TRAINING

1. The Office of Risk Management should support ***professional certification*** programs as well as regular attendance at relevant conferences and seminars. Attendance at conferences and seminars should not be restricted to management personnel. The Office of Risk Management would also benefit from any form of *general tuition reimbursement* program. A knowledge-based company is a successful company. Tuition reimbursement, while limited in dollars to funding available, should be not be limited to courses specifically geared to Office of Risk Management issues. As both professional certification and tuition reimbursement are endorsed by the Department of State Civil Service and the Division of Administration, the lack of access to these educational resources by general rank and file employees of the Office of Risk Management can only be attributed to the former executive management team's refusal to permit participation in these programs. Workforce development should be strongly encouraged.

2. An ***ethics initiative*** should be developed and administered within the Office of Risk Management. This initiative should contain a mission statement; offer explicit training in ethics and the resolution of ethical issues; and provide an internal forum for resolution of potential ethical dilemmas.

3. ***Orientation programs*** for all new hires should be designed and administered consistently. This orientation, if done in a timely manner by qualified staff members, would provide each new employee with a better opportunity to succeed.

4. The Office of Risk Management should form a ***strong partnership with the Comprehensive Public Training Program (CPTP)*** for its training and staff development needs.

   The CPTP should be used to facilitate the effective delivery of *loss prevention and safety-related training by the CPTP*. Loss Prevention Officers should devote their time and expertise to conducting audits and monitoring successful resolution of any findings by client agencies.

   The CPTP should be used to prepare potential candidates for leadership positions. The current practice of prohibiting non-supervisory employees from taking advantage of *supervisory training programs* should be modified by the Division of Administration to enable preparation prior to promotion.

   General employee training should focus on enhancing each employee's ability to work effectively. Recommended training topics would include functional training (e.g., customer service, claims adjudication, underwriting and safety management) as well as team-

building, decision-making, time management, conflict resolution and communication (written and verbal).
5. An ***annual training time budget***, if adopted by the Office of Risk Management, would ensure that adequate training takes place in a consistent and orderly fashion for all employees. An initial budget of 7% of available time might be useful to extend for two years followed by a reduction to 6% except for new hires. Such budgets might mandate that 50% of such training occur at the work-unit/individual level.
6. Training activities should include an ***aptitude assessment of students*** so that a knowledge baseline and/or a knowledge gain can be measured. Learning objectives should be clearly stated at the beginning of each course. The American National Standard ANSI/ASSE Z490.1-2001, Criteria for Accepted Practices in Safety, Health, and Environmental Training is recommended as a guide for the development and delivery of Office of Risk Management Loss Prevention training.
7. ***Inexperienced and/or poorly trained claims handlers*** are a major threat to effective case management. Immediate training in proper reserving is needed. Having the ability to analyze the facts of a case and have the knowledge and experience to effectively predict the life and value of a case is critical to limiting the scope of exposure. *Reserve worksheets* should be prepared for workers' compensation, liability, and property and should be required for all initial and subsequent reserve change transactions. These worksheets should become part of any new claims management software system. This training could be provided in increments with managers and supervisors first to facilitate a "train-the-trainer" environment.
8. Performance issues seen in files predating recent staff reductions refute former executive management's contention that staff reductions are to blame for observed performance deficiencies. ***Lack of executive vision, lack of consistent training plus a failure to instill and support high performance standards*** has led to an unacceptable level of claim adjudication quality.

TECHNOLOGY

1. Technology-based enhancements should only be initiated after a ***comprehensive definition of functional requirements***, addressing the needs of Office of Risk Management as a whole, has been completed. This initiative should involve individuals with functional and technical expertise. This will serve to minimize integration, maintenance and training issues in the future.

2. ***Corporate Systems*** modules should be replaced with an integrated risk management information system that meets the needs of a modern risk management organization such as the Office of Risk Management. This new integrated system should:

   - Be relatively easy to modify for enhanced functional support;
   - Be user-friendly and intuitive;
   - Be user-friendly and intuitive;
   - Support the accounting and underwriting function; and
   - Provide operational and managerial reporting.

3. In addition to providing an integrated risk management information system, the Office of Risk Management should also implement an enhanced ***business intelligence environment***. Currently, the Accounting Administrator and the State Risk Audit and Statistics Manager generate the majority of executive-level ad hoc reports (i.e., those reports requested by the Division of Administration, the Office of Planning and Budget and the State Legislature). A business intelligence solution needs to be implemented combining a data warehousing concept and well-trained staff to alleviate the considerable amount of effort expended to satisfy information requests in a timely manner.

4. A ***document imaging/workflow management system*** is particularly well-suited to Claims Unit in its aim to reduce unnecessary headcount and reduce reliance on paper and should be implemented. Comprehensive requirements definition should be done prior to implementing this system and should consider the integration of this system with the new risk management information system. The Office of Risk Management should closely examine the scalability of the current document management application to encompass the needs of the Claims Unit to maximize its current investment to the extent possible.

   The DRL has expressed a desire to cooperate in a shared system. Such a system can provide web-based results to agencies improving loss reduction and eliminating mailings. It is also worth noting that Claims Adjusters were clear during interviews in

agreeing that they could and would handle twenty-thirty additional claim files in return for an effective document management system. They recognized the overall savings such a system, along with an improved claim management system, would bring.
5. The ***routing and answering of telephone inquiries*** (especially into the Claims Unit) should be studied. The process is poorly defined and without basic monitors. Telephone monitoring software along with automatic call distribution (ACD) switches and possibly other computer telephony solutions such as interactive voice response (IVR) in a team environment would substantially improve customer service.
6. The ***generation of paper copies and the transmittal of facsimiles*** need to be both minimized and optimized.
7. The team of individuals responsible for supporting technology-related needs within the Office of Risk Management appears to be very willing to provide assistance as requested. However, a formally communicated process for involving these individuals in discussions regarding *business process enhancements and future staff needs* should be developed. These individuals will be better able to provide the necessary technological support if they fully understand the needs of the organization. This will also enable these staff members to assume a more proactive (but not dictatorial) role in providing technology-based solutions. Finally, these individuals should be provided with opportunities to enhance their technical skills through ***training and participation in professional organizations or user*** *groups*. Rapid and frequent changes in technology mandate currency and depth of knowledge.
8. An ***automated system of reporting and tracking user requests*** for technology-related services should be investigated. Such a system would facilitate the quantification of services requested/provided as well as serve to identify training/knowledge deficiencies among all staff members.
9. To support more objective safety management practice evaluations and reduce the paperwork burden on client-agency personnel and the Loss Prevention Officer's, the Office of Risk Management should license and make available to all agencies, an ***electronic safety management data system*** that will allow each agency to record safety management information in a common data repository hosted by the Office of Risk Management and from which, management information can be drawn and objective measures of safety management practices can be made. The safety management system should include specifications for learning management and for the delivery of Internet safety training where appropriate for the subject matter.
10. ***Litigation Management*** should include one centralized, computer-resident log and should track "cause of litigation" as a key factor.

11. The use of other, ***enhanced accounting software*** on the market that can extract data on an as-needed basis in the format required for internal control and management would reduce the workload and put the Accounting Unit on a more business-like basis.
12. A task force should be formed to re-evaluate all ***cause-of-loss codes*** and procedures for the use of the codes. A quality control procedure should be established and followed. The task force should include representatives from the Claims Unit, Loss Prevention Unit and Underwriting Unit as well as the interim State Risk Audit and Statistics Manager.
13. ***Loss coding*** for each product line should be explored immediately to ensure that all useful information is being currently captured. Medical bill review data should be uploaded back into the claim management system to provide data for trending analysis.
14. A ***uniform diary system*** should be incorporated throughout the Office of Risk Management. Some departments use the system diary feature while others do not use it.
15. A ***uniform system of documenting claim f***iles should be incorporated into the Office of Risk Management. Some departments employ the diary feature for electronic notes; others do not. Until a possible replacement system can be introduced, a better means of file documentation is needed.
16. ***Exception reports*** should be designed and routinely monitored for claims management internal control.
17. ***Quarterly Loss Runs*** provided to agencies should be redesigned and reformatted. Current loss runs delete reserve data providing agencies with incomplete picture of their true loss severity. Loss runs are difficult to read and understand. Loss runs may not be reaching appropriate agency personnel.
18. A final ***Statement of Loss*** should be required on all property claims.
19. ***Bodily Injury Indexing and OWC Filings*** should be automatic and integrated into the claims management system.

ORGANIZATIONAL / STAFFING

1. The Office of Risk Management's ***management structure should be flattened*** into client-focused teams resulting in reduced operating expenses, increased responsiveness and increased staff empowerment. The incorporation of Team Leaders and Technical Consultants would optimize utilization of present resources eliminating one layer of management. The Department of State Civil Service, along with support from an organizational redesign and performance consultant, should work with the Office of Risk Management toward the progressive implementation of an optimized organizational structure along with corresponding modifications to pay structure and position descriptions (see item 5 below). A change of this magnitude should not be done with experienced, professional assistance.

2. An ***in-depth job series analysis*** should be conducted. Based on the strategic scope of the mission of the Office of Risk Management within the state, staff members have a unique scope of responsibility. This fact should be strongly considered as it relates to salary structure and technical career progression. Current position descriptions and salary structures should be reevaluated to account for an optimized organization structure and increased employee responsibility. It should be recognized that various aspects of the mission of the Office of Risk Management are unique and require special skills not needed in other state entities.

3. The current ***satellite office concept*** is ill-defined. Mission, role, use and cost-benefit are not clearly documented. Further study is needed to determine the future role of such offices.

4. An analysis should be done to investigate the realignment of the ***Medical Review Panel*** within the Division of Administration instead of within the management control of the Office of Risk Management. Further, additional staff support should be added to this process due to the level of support required to coordinate, research and prepare filings for both state and private claims.

   This function currently supports the management of an open caseload that ranges from 300 – 500 files without dedicated clerical support or effective automated tools. Tasks include research to determine whether a case involves a state or private health care provider.

5. The concept of a ***clerical pool*** should be carefully evaluated for effectiveness within the entire organization. Implementation would require effective training to enable transparent support to each organizational unit as well as the generation and transmission of correspondence in a timely manner.

6. Due to the ***potential security risks***, the Clerk Chief II position must be situated in a secure location with dedicated office space. As a practical next step, floor plans for the new location of the Office of Risk Management should be evaluated to ensure that the Clerk Chief II position has a secure work area with limited office traffic to limit the exposure of confidential human resource information.

7. The Clerk Chief II maintains a detailed manual log that documents the fact that the Office of Risk Management is giving ***60-day advance notices*** **as well as** ***14-day follow-up reminders*** to supervisors and managers of impending employee evaluations. This process should be automated through the *ISIS* information system or other means.

8. In an effort to maximize efficiency within the human resources function, ***floor plans*** for the new location of the Office of Risk Management, particularly in the area of telecommunications, should be evaluated to ensure that the Clerk Chief II position has online access to the *ISIS* human resources information system. The Clerk Chief II position should receive *ISIS* training to optimize use of the system.

9. Upon initial cursory review of the human resources file system, the human resources files appear to be updated and well-maintained. However, no clear ***file classification system*** exists. Human resources information should be classified into similar groupings and filed in different sections of the file based on a file classification system. The utilization of a file classification system will greatly improve the organization of the human resource file and make it easier for the Clerk Chief II to retrieve information from the files. As a practical next step, a full audit of the human resources file system will be conducted and a file classification system will be recommended

10. The DRL provides some assistance with *coverage issues* whenever any individual state employees are named in complaints. Such coverage issues should be addressed from within the Office of Risk Management to avoid any potential conflict of interest. The Office of Risk Management may need a ***General Counsel*** to assist in this and other legal issues. The Office of Risk Management experiences a high incidence of litigation in their liability files. Exposures in many of these cases are quite high. A General Counsel readily available for consultation has proven an invaluable claims adjustment tool. A well-experienced attorney can server as a liaison to assist the claims representative in suggesting alternative courses of action in the handling of litigated claims assigned to DRL or contract attorneys. The General Counsel can work closely with the State Risk Director to suggest statutory changes when needed that would further augment Office of Risk Management operations. The General Counsel can provide the organization with a dedicated means of assessing ultimate costs of litigation, abilities of

contract attorneys and can determine when strategies in on-going cases need re-examination. Additionally, there is an abundance of contractual issues, particularly within the Underwriting Unit, that would benefit from direct, trained legal scrutiny.

11. Workers' Compensation can reduce loss payments by having a **part-time Medical Director** available to review cases and assist adjusters in their design of medical recovery programs. This could be addressed through a partnership with the Office of Group Benefits.

12. Workers' Compensation can reduce loss payments by having ***Medical Case Managers*** to assist with specified indemnity claims. These individuals can be staff members within the Office of Risk Management or contract professionals as long as their role and job description is clearly understood. This expertise could also be gained through a partnership with the Office of Group Benefits. In this position, and given the expected limitations on resources, the primary role of a Medical Case Manager is to facilitate a rapid return to work. Secondary roles are to explain the nature of the medical condition to the injured employee, insure that the injured worker understands the prescribed course of treatment, follow up on medical treatment as it occurs, be a resource to the worker if problems arise, and provide a resource to the claim representative. Total time on claim should be limited to either sixty or ninety days with an allowance for both a one-time thirty-day extension and a subsequent reassignment if necessary. In this manner, all assignments are of equal weight and can be counted equally. The nurse avoids a case backlog. Once the prospects for any speedy return to work disappear, the nurse should terminate the assignment. This role differs markedly from that of the field case manager. The nurse at every opportunity is seeking a potential return to work date. That date is transmitted to the claims representative whose responsibility it is to work with the employee, employer and a vocational consultant if necessary to get this employee back to some form of duty. Industry experience has been that this nurse's position greatly improves return to work rates while reducing dependency on vocational case mangers and medical case management in the field. These nurses quickly win the respect of medical providers and are able generally to obtain medical reports more quickly. They provide a sentinel effect as well.

13. The Office of Risk Management would benefit by having at least one experienced ***full-time Special Investigations Coordinator*** to coordinate, manage and track all fraud prevention activities.

14. One ***Medical Malpractice Adjuster*** position is needed to handle expected claim volume.

15. The two ***Medical Malpractice Supervisory*** *positions* should be combined into a single supervisory position

16. The ***Accounting Unit currently has a staff of nineteen.*** Properly tuned with the right integrated risk management software solution, the Accounting Unit should be able to process payments, process receipts, reconcile accounts, prepare management analysis with a staff of seven consisting of:

    - One team leader / manager
    - Four staff members to process *ISIS* payments, regular accounts payable, *Corvel* fees, cash receipts and bank reconciliations
    - Two staff members to handle process and data review and coordination with other units of the Office of Risk Management and to perform internal control checks and balances as needed.

    Additionally, the scope of responsibility for the following three positions should be evaluated:

    - State Risk Audit and Statistics Manager
    - State Risk Audit and Statistics Supervisor
    - Statistical Assistant

    Currently, the State Risk Audit and Statistics Manager collaborates primarily with the Accounting Unit head to address premium development and numerous ad hoc report requests. Ideally, the premium development function should be contained within the Underwriting Unit. However, management of the ad hoc reporting function should be managed at an office-wide level, preferably within the management control of the Assistant State Risk Director.

    It is strongly recommended that the Office of Risk Management undertakes the steps necessary to establish a ***separate Contracts and Grants Unit*** reporting to the Assistant State Risk Director and reassignment of the four contract support individuals currently in the Accounting Unit to this new unit.

17. The Office of Risk Management should secure the services of a ***change management and organizational development consultant*** to help develop a strategy to implement the cultural changes needed within the organization.

GENERAL ADMINISTRATIVE

1. The Office of Inspector General should conduct ***quarterly investigations*** of the Office of Risk Management until such time as the Internal Audit function is re-instituted.

2. The concept of document management, cross-functional teams and reorganization within the Office of Risk Management should be configured into the ***office layout design*** for the organization's new facilities. A central file room might be avoided. Team seating configurations should be considered. Managerial spaces should be flexible with privacy areas incorporated into the overall design.

3. ***Legal contracts*** are cumbersome and time-consuming in the present system with questionable value. Blanket contracts geared to agreed rate schedules are simpler to implement; however, this strategy has been attempted before but suffered from the lack of a failsafe mechanism to ensure that funding was secure prior to contract execution. This procedural and legal issue should be addressed before reintroduction.

4. There is no strategy within the organization to ensure that ***certificates of insurance*** from vendors and subcontractors are renewed annually. The Office of Risk Management should assign this function to a particular unit within the organization.

5. A ***bottom-up / top-down hybrid budgeting system*** is proposed for the coming fiscal year. Monthly budget conformance reports should be prepared at the departmental level. The Accounting Unit should request variance explanations whenever actual spending has exceeded a pro-rata budgeted amount.

6. The Office of Risk Management needs some level of direction and coordination outside its own management channels. An ***"Agency Board of Review"*** or some similar mechanism could act to (1) as a sounding board to administrative issues under consideration by Office of Risk Management (2) provide feedback from and to the agencies served; (3) serve as a "champion" for causes critical to the Office of Risk Management and the state; and (4) assist the Office of Risk Management in finding effective means of preventing losses. The present Interagency Council, if modified to ensure active participation by the state entities as well as each functional area with the Office of Risk Management, could perform this vital function. Additionally, a review of the effectiveness of the current board structure serving the Office of Group Benefits could be used as a benchmark.

7. The Office of Risk Management should explore federal and other ***grant program funding*** as alternative sources of funding for special projects.

CLAIMS-SPECIFIC

1. ***First claim reports*** from claimants should not be discouraged. Prompt contact is essential. Currently, claimants attempting to report claims by telephone are referred to the individual state agencies. Additionally, a mechanism to discourage *late claim reporting* by state agencies should be explored.

2. All claims made against the state should be ***entered in the claims management system immediately***. Some claims are reviewed, denied or otherwise handled without being formally created. A standard of input of new claims into the system should be adopted and monitored for adherence. Delays are observed in files reviewed ranging from a few days to several weeks or more.

3. Claims personnel, rather than defense counsel should, in most cases, perform *settlement negotiations*. Supervisors should have ***increased settlement authority*** delegated commensurate with their experience levels. Claim Council Reviews should handle authority requests in excess of this increased authority. Claim Council Reviews should be limited to members of the sponsoring team plus defense counsel. Office of Risk Management executive management staff should participate only upon request or when authority requests are expected to exceed the supervisor's authority. Each of these responsibilities requires proper training to enable current staff members to perform at this increased level of empowerment.

   The Office of Risk Management has the staff to handle increased responsibility. These are some mature and intelligent individuals who can be mobilized to improve overall productivity. When coupled with a team environment, regular team meetings, technical training on a weekly basis and monthly claim file audits, this move to a more empowered work force will bring the most demonstrable of any of recommendations made as a result of this assessment. The recommended monitors and controls being proposed along with these further enhancements provide a measure of security.

   The Office of Risk Management should not assume that the current system is working well and should also not assume that the closely supervised and tightly regulated process is saving money. It appeared, during the assessment, to be doing just the opposite. Management has developed a false sense of security. Rank and file employees are not appreciated and are not expected to produce superior results. Once the expectations change, results will follow. The recommendation only suggests that supervisors and managers have their authority increased along with the ability to delegate up to their individual authority levels. This is consistent with solid managerial theory as espoused by Henri Fayol. A manager must be empowered with a certain level of authority to get a certain job done. Constraints should not be placed on how that manager gets the job done. Rather, the results

should be judged. This places the individual manager, that person closest to the action, in the best position to know when and how much to delegate. Unless individual responsibility is restored, it is not likely that the current managerial staff, or any future staff for that matter, can significantly change the unacceptable outcomes being seen now on a regular basis.

4. Proactive ***return-to-work concepts*** have already been deployed and should be monitored for progress toward achieving the projected savings of approximately $20 million annually. Return-to-work rates in workers' compensation, if developed monthly, would provide a measure of unit performance and targets for incremental improvement.

5. As budget funds allow, ***creative file closing options*** should be utilized. Examples include quarterly regional *"Settlement Days"* for claimants and attorneys and monthly *"Fantastic Fridays"* during which claims personnel concentrate on file closings.

6. Claims assignment criteria are traditional, vary among departments and are internally focused. ***Cross-functional teams*** servicing specific agencies promise improved customer satisfaction and the best prospect of loss reduction and loss mitigation.

7. A dedicated and trained staff of adjusters handling ***Second Injury Fund (SIF) and Third Party Recoveries*** could perform this function for less than the amount the state presently pays in fees to the Second Injury Fund recovery vendor.

8. Workers' Compensation should end its practice of ***flagging Second Injury Fund recoveries*** for the SIF vendor. The state contract allows the compensation unit sixty days first rights on all identified cases submitted to the Office of Workers Compensation (OWC) for recovery. Such cases are now being routinely assigned to the vendor who charges 15% on monies recovered.

9. The ***36-month timeframe*** for agencies to perfect property damage claims to Office of Risk Management should be revisited and a means found to allow Office of Risk Management to close files in a shorter timeframe without any resulting unnecessary expense to the state.

10. ***Increased property loss deductibles*** should be explored.

11. ***Adjusters*** should be allowed and expected to ***enter check requests*** and all other data transactions into the claims management system. Monitors and controls should be developed separately to audit these processes.

12. Bill review in the Workers' Compensation department should be redesigned to avoid the likelihood of ***late payment of provider bills***.

13. Workers' Compensation claims processing should benefit from an ***active managed care network*** available to state employees injured on the job. The combination of discounts plus improved communication could result in improvements over the passive network now provided by the bill review vendor. This could be addressed through a partnership with the Office of Group Benefits.

14. **Maximum caseload policies** should be adopted throughout the Office of Risk Management. This will prevent adjuster overloading and will steer Office of Risk Management supervisors to other solutions including improved closings and use of non-staff personnel on an interim basis.

    Caseload management is an often-debated topic among claims professionals. Three years ago, it became the subject of an engaging debate at *RiskNet*, an Internet forum for risk managers and claim professionals. Most respondents agreed that one had to first define the expected role and tasks of the claims handler. For example,

    - Does the handler manage bill payment, recovery, fraud investigation, and litigation management?
    - Are claims randomly assigned or do certain adjusters get the more complex claims routinely?
    - How automated is the claims management system? Is document imaging in use?

    These are all critical questions that, depending upon the answers, can alter an optimum caseload number.

    At the Office of Risk Management, as presently configured and allowed to operate "claims representatives" more closely resemble "claims examiners" whose function is to transmit cases to attorneys and/or independent adjusters, receive and review reports, pay invoices, set recommended reserves and process requests for settlement authority. In this role they are closer to actual claim supervisors than claim handlers. They are burdened as well by a unique state requirement of administering an awkward attorney and vendor contracting program. If this is to become the preferred role for these individuals, and assuming no improvements in technological support, it is reasonable to expect liability "examiners" to handle 250 claims, perhaps up to 300 claims. Workers' Compensation "examiners" might be expected to handle 200 – 250 claims. Property "examiners" could handle perhaps 175 - 225 claims as their claims are normally quite active and close relatively quickly.

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It is more likely that the Office of Risk Management will determine that a return to true claim adjusting is in the best interests of the state. Internal adjusters should be more cost effective. No profit is being added into the total cost formula. They should be more efficient since they would not need to transmit cases to outside entities, and in an agency-dedicated team approach, they would acquire the effects of a learning curve enabling them to navigate the state agency system in a more facile manger getting necessary information more quickly than a rotational system of vendors could manage. Assuming that subrogation is off-loaded to a dedicated unit (only the subrogation aspects of the claim – not the entire claim), and assuming a more responsive claim management system is introduced, it is not unreasonable to expect that liability adjusters handle 140 - 160 claims each. Workers' Compensation lost time adjusters should not be expected to exceed 125 cases. Superior results can be achieved with levels slightly lower at 110 maximum. Property would continue to rely more heavily on outside adjusters and appraisers and little change would be seen there. One caveat with Property is that whenever an adjuster is charged with a large loss, most new assignments should be curtailed for several weeks to allow time on the one significant case plus tending to pending assignments. Adjusters should receive assignments randomly except for trainees. This avoids overloading the "good" adjuster with the more complex files allowing the marginal adjuster to remain in position by virtue of the less demanding assignments. Over time, this system will force changes to the adjusters that will result in a more balanced work force.

Even the examiner positions will need their caseloads monitored and held within maximums. Generally, Workers' Compensation companies surveyed maintained caseloads at or under 350 files. In liability units, the number is comparable. It is very difficult to keep up with 350 individual claimants. Some of these claims will become more involved. It is suggested that time limits be placed on the examiner files as well.

An alternative is to abandon the Claims Examiner position entirely in favor of *Fast-Track Claim Assistants*, a clerical level position, and real Claim Adjusters. There are several arguments for this approach:

- Seasoned claim representatives appreciate getting some claims that are light in nature; they handle these with minimal effort.

- Since some of these "easy" claims will turn into more complex claims eventually, the need to transfer files is eliminated. Such file transfers seldom happen timely leading to lost opportunities and increased costs.

- From a personnel standpoint, it is difficult to hold back "average" examiner performers who opt to post for Adjuster positions. Since few companies can afford to fill such examiner positions with true Claim Adjuster Trainees, the result is an infiltration of the Claim Unit of less educated individuals with less performance potential. This is a real problem to the modern, differentiated claim department.

- Fast-track claim assistants would handle only a tightly defined claim: pay and close or expect to close within 90 days, with 3 or fewer checks, no subrogation, and no question of liability. Reserves equal to the average of such claims at closing are used. All files open at the 90 day level are subsequently reassigned to Adjusters. CNA Financial Corporation uses a variant of this process. Their claim system is organized around (1) Workers' Compensation (2) Initial Handling Unit for Auto, Property and Liability claims and (3) Continuing Handling Unit for all claims still open after forty-five days or for immediate handling of claims sure to stay open for forty-five days or more.

- With a team-based empowered approach, the organization becomes easier (at least for all but the Team Leader). Each team determines who will be allowed to handle what. Rules are more flexible. Individual skills and preferences are taken into account as are the team's needs along with the career plans of the individual members. Team A might decide to devote one resource to Fast-Track handling whereas Team B might decide not to do this. Since each team's accountability is to bottoms line indicators such as average claim payment on closed claims, closing rate, expense levels, and customer survey results, management should not have a role in deciding how each team bests meets its goals and objectives. Inter-team competition will further tighten processes and procedures within teams. Hanover Insurance Company runs its entire operation on a team basis with each office being treated as a separate profit center. Each profit center is required only to abide by certain holistic rules and procedures. Outside of these generic constraints, the teams are free to operate independently but all are judged against the same measures.

15. The Workers' Compensation ***Claims Examiner position is considerably overloaded*** with cases given current staffing. An immediate solution to this problem needs to be found. This position can be an excellent entry-level position for trainees intended for adjuster positions. In the short-term and absent any approved staffing additions, two clerical positions should be moved to this position. All open examiner files should be reviewed. Suitable cases should be closed. Cases meeting defined criteria (e.g., one year old and/or more than $7,500 in paid medicals) should be reassigned to adjusters. Staffing levels should be determined after this review is made and according to a maximum caseload policy. (See item 21.)

16. The Office of Risk Management should explore incorporation of a ***catastrophic and complex medical claim management*** contract program (such as that offered by firms like Paradigm Corporation) into the workers' compensation claims process. This is another area where the Office of Risk Management could benefit from a partnership with the Office of Group Benefit.

17. A method of ***streamlining the handling of windshield claims*** should be incorporated (see the State of Nevada website http://www.state.nv.us/risk/Windshields.htm for an example of a similar policy). A best practice is to keep low cost, high frequency, non-judgmental first-party claims away form claim professionals if at all possible. They do not add value to the handling of such claims, but do add expense and delay leading to customer dissatisfaction. Windshield claims and certain medical only workers' compensation claims are the most recognized category for such claim fast-tracking procedures. It is estimated that a windshield program that easily allowed direct replacement through approved vendors would reduce through put in claims by an amount equal to one-half of one Claims Examiner per year. Third party windshield claims, while still needing claim professional attention, would benefit from the improved pricing and processes already used on the first-party claims.

18. ***Action Plans*** for ultimate file resolution should be required on all files.

19. The Office of Risk Management should contract with a ***single pharmacy management company and a single durable medical equipment company*** as a means of reducing costs. Pharmacy networks and durable medical equipment networks provide a number of advantages to the best practices claims operation:

    - Louisiana has approximately 1300 pharmacies in the state.
    - The average workers' compensation adjuster receives 10 phone calls per day requesting approval of prescription medication.
    - Each of these phone calls (plus perhaps a like number that did not result in a call) do result in a piece of paper mailed to the office, indexed, routed, reviewed, approved for payment, entered into the claims system, check produced, check mailed and check reconciled by Accounting Unit.
    - The Office of Risk Management currently is paying OWC fee schedule rates.
    - Networks in Louisiana have memberships as high as 95% of all pharmacies guaranteeing high penetration.

- Networks pay providers directly which results in the issuance of only one bi-weekly check being generated by the Office of Risk Management. A computerized routing scans the claims files allocating incurred expenses to the appropriate files.

- Networks provide software systems that detect multiple drug prescriptions from different providers while also providing the safety of highly efficient drug interaction screening.

- Networks provide discounts from OWC fee schedule rates of 30% or more with some sharing drug rebate checks annually with members.

- Networks provide on-line verification to the pharmacist avoiding the telephone calls. First-time prescriptions can be allowed with the likelihood of unmatched claim losses remaining less than $200 per year, a small price to pay for excellent service to state employees and drastically reduced work for the claims representative.

- Automated, on-line claimant verification can be quickly and easily programmed into an enhanced claim management system and interfaced with the network eliminating paper and fax transmittals.

Durable medical equipment networks are generally thought of as catchall networks that provide equipment and services to the claim department. Examples might include peculiar transportation needs, home-based healthcare and nursing services, prosthetic devices, wheelchairs and crutches, Transcuntaneous Electrical Nerve Stimulation (TENS) units and air medical service. Advantages of such a network are similar to those listed for the pharmacy network. The claims representatives have a single 1-800 number to use for all ancillary needs. A well-run network promises the lowest average cost. Most networks are in fact composed of mini-networks themselves so independent businesses still participate. The bargaining is done by a professional on behalf of the Office of Risk Management. There is a single monthly bill. Trends can be better analyzed. Use of such a network should reduce the complexity of state purchasing requirements since the state would be dealing with a single entity rather than many.

20. The Workers' Compensation staff should develop a ***medication management program*** for long-term and/or high cost prescription drug claims. The cost of prescription medications averaged 1.3% of the total cost of medical expenses on workers' compensation claims in Louisiana in 1995 (based on a study done by the Louisiana Workers' Compensation Corporation in 2000). By the end of 1999, this number was 9.6% and rising 17% per year. On liability claims, the proliferation of heavy prescription drug usage has increased the normative amounts of negotiated settlements significantly and in some cases has totally changed the complexion of bodily injury cases. The causes of this rapid rise in costs are much debated today. Most observers will agree that this new phenomenon is the result of the interaction of several factors:

    - the unprecedented rise in the number of patented medications;
    - the decision by major pharmaceutical houses in the early 1990's to devote considerable sums to aggressive physician and consumer marketing campaigns and
    - Americans increasing dependence on medications as the answer to life's everyday problems.

    There is a lack of industry experience or knowledge that prevents modern claim departments from dealing decisively with this common claim issue. This is the newest emerging best practice and the Office of Risk Management could gain from being in the forefront. The Office of Group Benefits has taken some initiatives and would doubtless be interested in working with the Office of Risk Management to develop a pharmacy benefit program tailored to those claims seen most often at the Office of Risk Management. Protocols must be developed to act as a guide for the claims handler. Once a medication threshold is tripped, a procedural response would automatically flag the case to a certain utilization review route. This process would be developed by a recognized pain management specialist working in conjunction with physicians in other specialties when needed. Sandra Weitz of Our Lady of the Lake's Pain Management Clinic is perhaps the best trained and credentialed practitioner in this area. Savings from such a program would be expected to be significant both in directly reduced costs of medications and also in the ultimate costs of the underlying claim.

21. Usefulness of the daily "***Forecast***" for payments ready for issue should be explored. This is an unusual practice not seen in insurance companies with higher levels of daily payout.

LITIGATION-SPECIFIC

1.	***Final authority on claim dispositions*** should remain within the Office of Risk Management.
2.	A ***litigation reduction program*** should be researched and instituted as a further means of controlling rising litigation costs.
3.	Cost of legal services provided by the ***Division of Risk Litigation (DRL)*** should be based upon actual derived costs to the state. Current pricing is based on a complicated dual-billing system. DRL furnishes the Office of Risk of Management with actual monthly operating costs. The DRL provides the Office of Risk Management with a CD-ROM, on a quarterly basis, containing actual billings per claim file at the designated fee schedule. Payments are made based on operating costs. Claim file postings are made for three quarters of data withholding the final quarter of postings until the extent of actual operating costs can be seen. At the end of the fourth quarter, a comparison of operating costs paid to contract maximum is made. Additional claim file postings are made to equal the lesser of the contract amount or the actual expenses reported. This process should be changed because of the following observations: • The contracted amount would seem unnecessary. If the Office of Risk Management owes actual operating costs to the DRL, then the DRL should be reimbursed actual operating costs regardless of amount. • The DRL is not providing back-up data justifying its cost numbers. • The process is time-consuming in its present non-automated state taking approximately two-thirds of one full0time staff resource just to post the claim file payments. • The process of claims review of DRL billing is time-consuming and minimal feedback provided when changes in billings are requested.
4.	The concept of the ***DRL billing the Office of Risk Management*** is questionable and seems to require unnecessary resources in both offices. If billing cannot be discontinued, analysis of hours of work needed in coming years needs to be determined to reflect reduced claim volume in key areas. Consideration might be given to discontinuing the practice of inter-agency billing. Benefits would include elimination of processing time for DRL attorneys and clerical staff as well as clerical staff time within the Office of Risk Management. The only possible downside would be the loss of reimbursement of legal costs when provided by DRL on cases reaching the excess level (greater than $5 million). These cases could be outsourced when identified early in their handling.

LOSS PREVENTION-SPECIFIC

1. Revise the standards for passing the safety audit as indicated below.

Recommended Loss Prevention Standards

	Level 1	Level 2	Level 3	Level 4	Level 5
Management Commitment					
Program Assessment in the past 12 months	12	18	24	30	30+
Assessment by a Credentialed Professional* Yes	Yes	No	No	No	
Needed Programs are written & Active	Yes	No	No	No	No
Responsibility for each program is assigned	Yes	No	No	No	No
Worksite Analysis					
Physical Assessment in past 12 months	12	18	24	30	30+
Assessment by a Credentialed Professional*	Yes	Yes	No	No	No
Percent on-time recommendation compliance	95%	90%	85%	75%	0%
Training Assessment in past 12 months	12	18	24	30	30+
Assessment by a Credentialed Professional*	Yes	Yes	No	No	No
Hazard Prevention & Control					
Percent on-time inspections	95%	90%	85%	75%	0%
Percent on-time corrective actions	95%	90%	85%	75%	0%
Accident Investigation Records complete	95%	90%	85%	75%	0%
Percent on-time corrective actions	95%	90%	85%	75%	0%
Safety & Health Training					
Percent on-time training	95%	90%	85%	75%	0%
Proficiency					
Percent safety meeting attendance	95%	90%	85%	75%	0%=
Employee Involvement					
Safety Committee Attendance	95%	90%	85%	75%	0%
Meetings per Committee in past 6 months	6	6	5	5	4-
Employee Participation in at least 2 processes	50%	40%	30%	20%	0%
Employees reporting hazards					
Employees reporting near-misses					

Employees completing JSAs
Employees completing observations
Employees making suggestions

* Any active practitioner who meets the standards outlined in LA R.S. 23:1291 - Title 40, Part I, Chapter 9, Rule 903

1. For quality control purposes, management should ***perform periodic, random, follow-up audits*** to monitor the performance of Loss Prevention Officers. This should be included in the policies and procedures document.

2. ***Procedures for selecting, requesting, conducting, reporting, and distributing accident investigations*** should be established and communicated within all parties participating in the process.

3. A ***Cause-of-Loss Target budget*** should be created to support loss prevention initiatives targeted at specific loss causes. Authorization for spending should be given by the State Risk Director based on recommendations from an interagency entity such as the existing Interagency Council. Future year budgeting should be supported by demonstrated success. Reductions in deductible reimbursement billings should be contemplated if the recommendation for use of deductibles is accepted. A first-year budget of $200,000 should be established.

4. ***Complete loss data,*** including case reserves, should be made available to agency personnel who are charged with preventing, reducing or controlling losses.

5. ***An operational assessment of all state medical service agencies*** should be undertaken to identify existing medical malpractice loss prevention activities and to develop, if appropriate, recommendations for improvement. A budget of $50,000 should be established to support the malpractice loss prevention assessment.

6. A formal budget should be established to support the activities of the ***Road Hazard Committee***. An impact target and return on investment (ROI) calculation should be required for all expenditures. A first-year budget of $200,000 should be established.

7. ***Equally developed loss costs*** should be used as the basis for measuring success and for calculating ROI for the overall Loss Prevention effort.

8. ***Frequency reduction and average claim cost*** should be used to measure the success and ROI for loss prevention initiatives targeted at specific loss causes.

9. The ***Loss Prevention Standards*** prescribed by the Office of Risk Management under LA R.S. 39:1536 should be changed to meet federal U. S. Department of Labor standards.

10. The Office of Risk Management Loss Prevention Unit should establish a plan to have ***all Loss Prevention Officers meeting the Safety Professional Standards*** outlined in Title 40, Part I, Chapter 9, Section 903 (R.S. 23:1291) by 12/31/05. The plan should be completed no later than 6/30/02.

11. ***Outcome measures should become the performance measure of choice*** within the Loss Prevention Department. Each state agency should have a trended Expected Loss analysis performed for each fiscal year. Expected losses by discrete loss cause categories multiplied by the standard cost for these claim types would equal the expected loss cost for the agency. Action Plans designed to reduce targeted loss causes would be implemented by the agency and supported by the Office of Risk Management. Percent of targeted loss reduction attained would become the outcome measurement.

12. The Office of Risk Management should work closely with Department of State Civil Service to ***develop appropriate guidelines for broader implementation of safety incentives***. Safety incentives should be more widely more widely offered to motivate state employee participation in loss prevention activities (i.e., learning, hazard reporting, safety suggestions) and should not be based on preventable accidents or on agency safety audit pass/fail results. All state employees should have an equal opportunity to participate for an initial period of three years.

13. A ***statewide goal of 10% reduction in Workers' Compensation loss costs*** should be established and communicated to all state workers. The workforce should be offered a three-year extension of the incentive program if the goal is reached. A budget should be established to support the safety incentive program. A first year budget of $270,000 based on 30,000 employees and incentive award values equaling $2.25 per employee per month for four months.

UNDERWRITING-SPECIFIC

1. It appears that a ***lack of detail in the communication of budget needs*** has resulted in a disconnect between the Office of Risk Management, the Office of Planning and Budget, the House Fiscal Division and the Joint Legislative Committee on the Budget. To improve these communications (pending further review), the Office of Risk Management Budget should be organized into the following categories:

   - Self-insured Claim Payment Budget
   - Aged-Claim Closing Budget
   - Commercial Premium Budget
   - Excess Premium Budget
   - Administrative Expenses Budget
   - Claim Payment Reserve Balance

   Self-insured Claim Payment Budget – this would cover anticipated self-insured claim payments to be made during the fiscal year on claims occurring on or after 7/1/2002. Future claims can be handled more effectively by reorganizing the claim management effort but the effectiveness of any new approach on old claims is limited by the history of the individual claim and how it was handled prior to the implementation. This budget should grow from year-to-year

   Aged-Claim Closing Budget – this would be needed to make fiscal year claim payments within the self-insured layer on claims occurring before 7/1/2002. There appears be a large number of existing claims that could be closed with the implementation of an aggressive action plan. The effectiveness of such an action plan will depend largely on the availability of funds to make settlements. If funds are not simultaneously available to handle new claims in a more effective fashion, then the effort to improve the overall situation will be hampered. In future years, it should be possible to reduce the Aged-Claim closing fund needs at a faster rate than the growth of the Self-Insured Claim Payment Budget. Ultimately, the Claim Payment Budget is expected to stabilize while the Aged-Claim closing fund continues to dwindle.

Commercial Premium Budget – this will cover the cost of first-dollar insurance policies where self-insurance is not used. Included will be the Aviation and Marine Liability Policies and the Superdome polices for Workers' Compensation and General Liability.

Excess Premium Budget – this will cover the cost of premiums to be paid for layers of coverage above the self-insured limits.

The Administrative Expenses Budget – this would be used to pay all Office of Risk Management operational expenses including unallocated loss adjustment expense. The Administrative Expenses should be detailed for the Underwriting and Loss Prevention operations and managers in those areas should participate in the process. Interviews with managers in those units revealed that they have not operated on a formal budget for two or three years.

Claim Payment Reserve Balance – reserves should be allocated for future claim payment obligations on the self-insured layer to make sure funds are available to continue paying claims in the event of a catastrophic occurrence or an overall budget crises. The state should maintain a position of taking advantage of settlement opportunities when those opportunities are in the state's best interest. At least one year's worth of claim payments should be banked to ensure cash available in a budget crises situation. A study of possible catastrophic impacts should be made to determine an appropriate level of reserves for such an event.

2. The ***use of deductibles*** should be considered as a part of the Cost of Risk Allocation effort. The impact of deductibles would be three-fold. First, the allocation of the deductible amount would be a most equitable means of allocating the lowest levels of the self-insurance coverage among the agencies.

   Second, agency managers being faced with deductible billings on a regular basis are likely to have a greater interest in safety management than the current practice imposes. With the exception of the Premium Credits for Audits (see Loss Prevention Assessment), the consequences of poor safety management behavior are too far removed, in time, to be effective. In the current allocation system, Cost of Risk Allocation is based on a five-year claim experience that is one year removed from the subject fiscal year. Without deductibles, any improvement in the claim experience of an individual agency will take a matter of years to effect an agency's Cost of Risk Allocation Budget. With deductibles, part of the improvement in safety management practice can be realized by the agency right away.

   Third, a listing of claims driving the deductible billing (when attached to the deductible billing) is likely to cause an increase in the agency managers' interest in claim details, and in his interest in working with the claim adjusters to mitigating claims arising in his agency.

To facilitate deductible billings, an **Agency Deductible Budget** will be needed. This budget should be assigned to the individual agencies. Office of Risk Management should bill each agency to collect deductible reimbursements as claim payments are made. The estimates should be actuarially based for claims occurring after 7/1/2002.

A **Deductible Claim Payment Fund** should also be established. This money will be needed to cover the flow of cash between the time Office of Risk Management pays claims and receipt of deductible reimbursements from the agencies.

3. The ***organization of the budget***, if deductibles are used, should be as follows:

   - Self-insured Claim Payment Budget
   - Aged-Claim Closing Budget
   - Commercial Premium Budget
   - Excess Premium Budget
   - Claim Payment Reserve Balance
   - Administrative Expenses Budget
   - Agency Deductible Budget
   - Deductible Claim Payment Fund

4. ***Formalize the process of review and update of procedures.***

5. Create a ***continuation plan*** to maintain underwriting expertise.

6. Establish a ***formal procedure for the contract review process.*** Include in the procedure manual a process for identifying future claims the state becomes obligated to pay in the absence of appropriate language. Identify claims paid for assumed liability that could have been avoided had the contracts contained protective language in favor of the state.

7. The Office of Risk Management should ***stop attempting to calculate equivalent commercial coverage costs*** because the process requires assumptions and considerable guessing and the result could give a false indication of success or failure. Because the result of this calculation is required in the annual report to the Governor, legislation will be needed (and should be requested) to eliminate R. S. 39:1537 Annual report item (6).

8. An ***independent reserve valuation*** should be completed as soon as possible. A focus should be placed on the study of historical claim data to determine what, if any, changes have taken place in the way claim reserves are estimated and what, if any impact such changes may have had on ultimate loss projections.

9. Include a count of available person-hours as a denominator in the measure of ***unit productivity***.

10. The ***DOTD Office of Engineering should be divided for the purpose of calculating the cost of risk allocation.*** If it is necessary to bill the DOTD Office of Engineering as a single unit, the allocated costs can be easily summed after the calculation is made. The inequity of the existing method is explained under "Workers' Compensation Experience Determination" below.

11. A ***formal data quality effort*** should be undertaken to improve the level of confidence in the exposure data used for cost allocation and needed for loss cost calculations. A method for validating sources and verifying records should be devised and implemented.